



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: September 3, 2008 REPORT NO: 08-124
ATTENTION: Council President and City Council
Docket of September 8, 2008
SUBJECT: San Diego Regional Enterprise Zone Application

REQUESTED ACTION:

- 1) Certifying that the information contained in Project No. 134663/SCH No. 2006121005 has been completed in compliance with the California Environmental Quality Act (CEQA) and State CEQA Guidelines, and that said Environmental Impact Report (EIR) reflects the independent judgment of the City of San Diego as Lead Agency. Stating for the record that the Final EIR has been reviewed and considered prior to approving the project. Certifying the Final EIR.
- 2) Authorize Staff to submit required documents to establish a targeted employment area to the State Housing and Community Development Dept.

STAFF RECOMMENDATION: Approve actions as requested.

SUMMARY:

BACKGROUND

In 1986 and 1992 the City of San Diego received approval for two enterprise zone (EZ) designations, the Metro Enterprise Zone (1986) and the South Bay enterprise Zone (1992). In 2000 and again in 2004, the South Bay Enterprise Zone was expanded to include properties along the Bay front redevelopment areas of the cities of Chula Vista and National City. In turn, the cities of Chula Vista and National City, in collaboration with the San Diego Unified Port District, provided funding to the City of San Diego to support the cost of managing the program and to enhance the marketing campaign for the zone. The Metro Enterprise Zone expired on October 14, 2006, and the South Bay Enterprise Zone expired on January 27, 2007.

On August 15, 2006, the City Council approved a resolution (R-301845) authorizing submission of an application to the State of California Housing and Community

Development Department (HCD) for a regional EZ designation, the San Diego Regional Enterprise Zone, (Attachment A) for the cities of San Diego, Chula Vista and National City (“SDREZ Partners”), approving an overall budget for year one, directing the Mayor to execute the necessary documents and agreements related to the application process, and forwarding same to HCD to complete the State’s EZ application process. The process for EZ designation is competitive and is based on economic need (distressed communities, lack of private investment, job creation needs, high unemployment, and at least 70% low-moderate income census tracts) as well as developing a sound, aggressive marketing and planning strategy, and job development strategy to implement the EZ program along with other local economic development strategies and tools.

DISCUSSION

In November 2006, the City of San Diego, as the lead agency for the San Diego Regional Enterprise Zone ,(SDREZ), was notified that it was awarded a conditional EZ designation. Final designation is contingent upon satisfactory completion of the conditions imposed on the SDREZ designation. The Enterprise Zone Act (California Government Code section 7070 et seq.) allows expiring EZ’s receiving conditional status to offer businesses within the new EZ geographic boundaries all EZ benefits and to make the effective date of the new zone the date of expiration of the previous designation. In the case of the SDREZ, the effective date is October 15, 2006.

The Economic Development Division staff in collaboration with the cities of Chula Vista and National City is engaged in the task of completing the remaining condition of the “conditionally approved” SDREZ, the certification of the Final Environmental Impact Report (EIR), in order to comply with California Environmental Quality Act (CEQA) requirement of the designation process. Upon acceptance of the certified Final EIR, HCD will require a Memorandum of Understanding (MOU) between HCD and the “SDREZ Partners” outlining the goals, commitments, and requirements for the SDREZ through its fifteen (15) year designation period. Such MOU will come before Council at a later date via ordinance due to the duration of the MOU. The two actions before Council in this 1472 are the certification of the Final Environmental Impact Report and authorization for the Mayor or his designee to submit appropriate documentation to establish a Targeted Employment Area (TEA) for the SDREZ. Once documents are accepted by HCD, final SDREZ and TEA designations will be awarded with an expiration date of October 14, 2021.

The legislative intent of the EZ program is to “stimulate business and industrial growth in the depressed areas of the State”. The other purposes are to establish a program “to help attract business and industry to the state, to help retain and expand existing state business and industry, and to create increased job opportunities for all Californians”. Essentially, EZ’s are competitively designated based upon distress criteria (primarily poverty and unemployment levels) and the local government’s capacity to carry out economic development programs. Local jurisdictions must provide additional local incentives throughout the 15-year designation.

The City of San Diego's EZ program has made a significant impact on the local economy. Since its inception in 1986, the San Diego Enterprise Zone program has assisted in retaining and creating over 25,000 area jobs, increasing private investment by nearly \$1 billion, and providing permit expediting, financial and technical assistance to thousands of local companies within the EZ and TEA's.

Businesses located within the SDREZ may receive individual or corporate state tax incentives/credits to reduce a company's state tax liability dollar per dollar. Any unused tax credits may be carried forward to reduce future tax year's liabilities. The SDREZ Fact Sheet (Attachment B) provides a brief description of the state tax benefits available to SDREZ businesses.

Environmental Review

A requirement of the Enterprise Zone Act is the preparation of an EIR to identify potential environmental impacts of any and all development planned within the EZ. The EIR must comply with the information disclosure provisions and the substantive requirements of Division 13 (commencing with Section 21000) of the Public Resources Code. In order for a conditionally approved EZ to receive final designation, the applicant must complete and certify the final EIR and submit to HCD. The proposed SDREZ does not change any land use designations, nor does it propose any specific development as part of the SDREZ Program. The designation of an EZ does not establish any new land use designations but rather identifies the areas eligible to receive benefits associated with the EZ. All future development would be required to be in accordance with federal, state, and local regulations, including the applicable General Plan and zoning.

Senate Bill 341 (Lowenthal) amended the Enterprise Zone Act by modifying the requirement for environmental impact reports for preliminary applications filed after October 1, 2007. EZ applications filed after this date may submit an environmental impact report, negative declaration, or mitigated negative declaration as deemed appropriate by the applicant lead agency and as required by Division 13 of the Public Resources Code. SDREZ's preliminary application was filed in September 2006 and must therefore complete the former EIR requirement however EZ designations awarded in 2008 may comply with the new requirements.

Targeted Employment Area

A "Targeted Employment Area" (TEA) is an area within the city or cities with an EZ designation and is composed solely of those census tracts that have at least 51 percent of its residents of low or moderate income levels. Its purpose is to encourage businesses in an EZ to hire eligible residents from these geographic areas. The business incentive is the availability of a tax credit for hiring residents who reside in a TEA. To establish a TEA, an EZ must submit an application for TEA designation to HCD. The application must clearly identify the census tracts that will constitute the proposed TEA and demonstrate that census tracts meet eligibility criteria. In addition, the application must include specific documentation, such as resolutions from all EZ partner cities and a map of the proposed TEA boundaries.

San Diego's regional TEA, established in 1998 for the Metro EZ and the South Bay EZ, will sunset upon final designation of the SDREZ. The census tracts incorporating the SDREZ do not have a high unemployment rate, however, these census tracts do have a high level of extremely low to low/moderate income population. Establishing a new TEA for the SDREZ will encourage SDREZ businesses to hire residents living in the proposed TEA (Attachment C). Within 180 days of updated United States census data becoming available, each governmental entity of the SDREZ Partnership must approve by resolution or ordinance, the boundaries of its TEA reflecting the new census data. If no changes are necessary to the boundaries based on the most current census data, a letter may be sent to HCD stating that a review was undertaken by the SDREZ Partnership and no boundary changes are required.

One of the goals of the SDREZ is to continue to increase the income level of residents of the EZ by attracting and expanding industries that historically pay higher wages, such as manufacturing and high technology companies, to the SDREZ. Within the two previously expired EZ's, the average hourly rate for employees qualifying for the EZ hiring credit voucher has always been significantly higher than minimum wage, usually averaging 130% above the state minimum hourly rate. **In the first quarter of CY 2008, 533 EZ hiring vouchers were issued of which 87% were to TEA residents.**

CONCLUSION

Upon notification that the SDREZ was successful in receiving a conditional designation, San Diego began implementing administrative changes to accommodate the new EZ designation. These changes include: reallocating existing Economic Development Division staffing resources to add a new EZ hiring credit vouchering agent to the EZ program; implementing the marketing and planning strategies identified in the 2006 EZ application; adding the San Diego Unified Port District as a collaborative partner to the SDREZ Partnership. Since then, the San Diego EZ Program has issued more than 5,000 hiring credit vouchers to 600 EZ companies in one (1) year and seven (7) months.

The official designation of the SDREZ by the State HCD will allow a significant economic and employment incentive program to continue in the cities of San Diego, Chula Vista and National City. The SDREZ offers a special opportunity to the region to continue to implement economic development and job creation program incentives in areas with significantly high levels of low and moderate income residents. Because San Diego's economy is regional in nature, continuing the collaborative relations with other local cities and the state to offer business incentives increases the San Diego region's ability to compete with other regions, create new jobs and increase investment in our county. The SDREZ program offers tremendous business incentives and helps the region assist employers and attract new ones.

The next step in this process will be for staff to return to City Council with an ordinance requesting authorization to execute a final MOU between HCD and the "SDREZ Partners" outlining the goals, commitments, and requirements for the SDREZ through its fifteen (15) year designation period. Additionally staff will also request authorization to

execute a separate MOU between the SDREZ Partnership formalizing the cooperative framework for managing and fiscally supporting the SDREZ throughout the designation period.


FISCAL CONSIDERATIONS: There will be ongoing staff time required to administer the SDREZ during the designation period. A first year budget was approved in 2006 (R-301845). SDREZ Partnership's funding contributions for future years to appropriately maintain the SDREZ Program throughout its designation period shall be addressed when staff returns to Council requesting authorization to execute the MOU between the SDREZ Partnership.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:
See Staff Report # 06-112.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: There are no key stakeholders. Projected impacts for the SDREZ are new private investments and the creation and retention of jobs in the San Diego region.



Scott Kessler
Originating Department



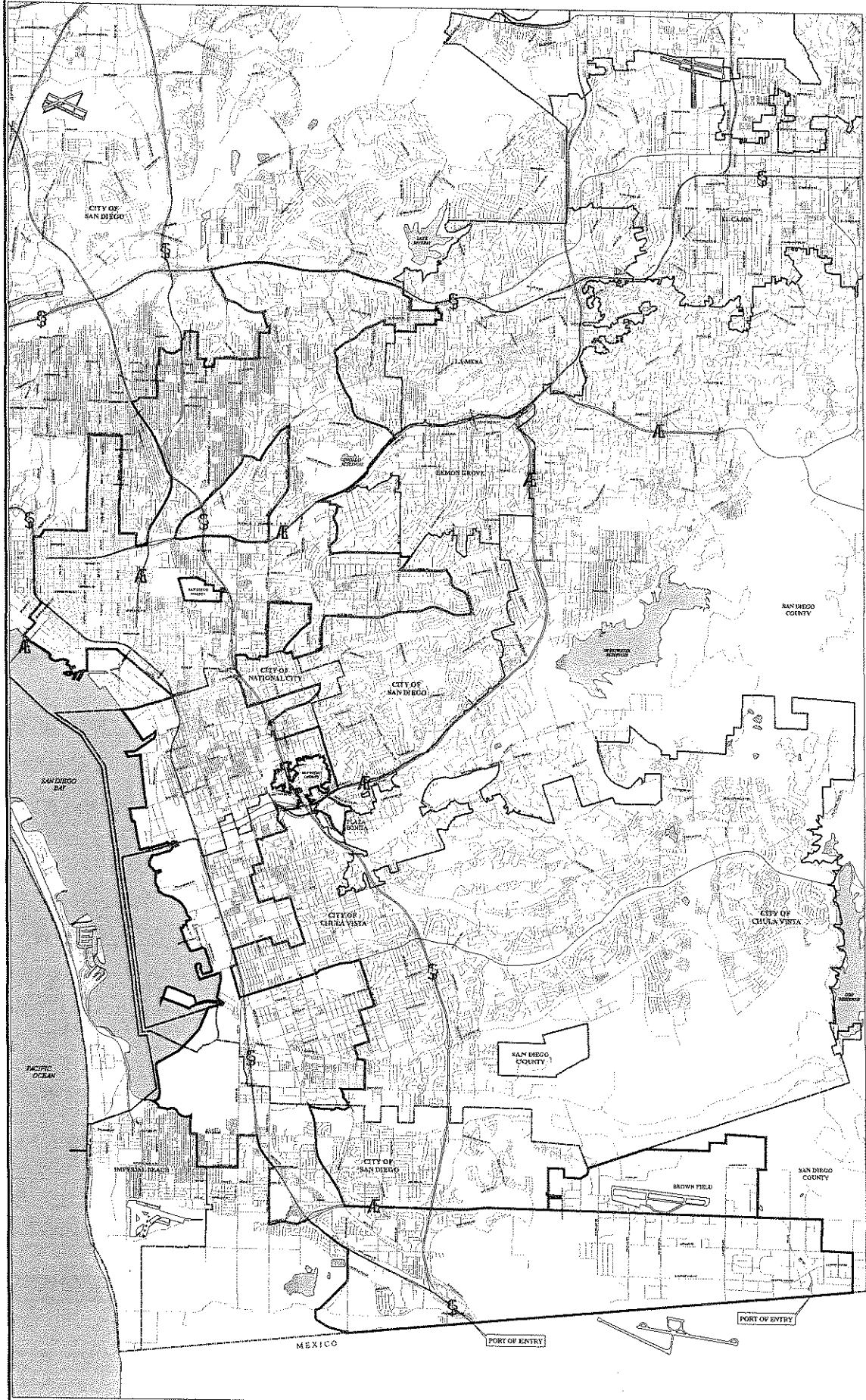
William Anderson
Deputy Chief/Chief Operating Officer

ATTACHMENTS:

Attachment A	SDREZ Application Area Map
Attachment B	SDREZ Fact Sheet
Attachment C	Targeted Employment Area (TEA) Map

Zone Street Map

MAP 2

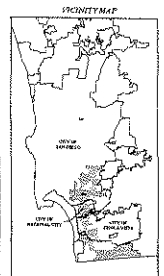


CITY OF SAN DIEGO
PLANNING AND COMMUNITY INVESTMENT
ECONOMIC DEVELOPMENT

CITY OF
CHULA VISTA

CITY OF
NATIONAL CITY
ECONOMIC DEVELOPMENT - CDC

- LEGEND**
- Application Area Boundary
 - Bodies of Water
 - Roads



NOTES

THIS MAP IS PROVIDED WITHOUT WARRANTY OF ANY KIND. THE USER ASSUMES ALL LIABILITY FOR ANY DAMAGE TO PERSONS OR PROPERTY, INCLUDING ANY AND ALL LOSS OF PROFITS, ARISING FROM THE USE OF THIS MAP. THE CITY OF SAN DIEGO, THE CITY OF NATIONAL CITY, AND THE CITY OF CHULA VISTA ARE NOT RESPONSIBLE FOR ANY DAMAGE TO PERSONS OR PROPERTY, INCLUDING ANY AND ALL LOSS OF PROFITS, ARISING FROM THE USE OF THIS MAP.



San Diego Regional Enterprise Zone

www.sandiegoregionalez.org

A total of \$1.7 billion worth of investment has been made in San Diego-area Enterprise Zones. More than **20,000 jobs** have been generated, and **hundreds of businesses** have received expedited permit applications. **Thousands more** have received technical or financial assistance.

An Enterprise Zone is a geographically designated area in which businesses can receive substantial state tax breaks and other benefits. Enterprise Zones were created in California to stimulate business investments and to increase job opportunities in areas of high unemployment. San Diego is home to one of 42 Enterprise Zones statewide.

San Diego Regional Enterprise Zone: Established in 2006, the **One Zone** is a regional economic development program incorporating portions of the City of San Diego, significant portions of the City of Chula Vista and the City of National City.

Advantages of the Enterprise Zone Program are the tax savings and other incentives including:

- **Sales or Use Tax Credit:** A tax credit against the purchase of new manufacturing, assembly, data processing or communications equipment equivalent to the amount of sales or use tax, or up to \$1.55 million annually.
- **Hiring Credit:** A tax credit on the wages to qualified new employees over a five-year period (up to 50 percent in the first year, 40 percent in the second year, etc.) This credit could exceed \$34,000 per eligible employee.
- **Accelerated Depreciation Deduction:** The option to accelerate depreciation on business property. A business may treat 40 percent of the cost of qualified property as a business expense in the first year it is placed into service for a maximum deduction of \$20,000 per year, whichever is smaller.
- **Net Interest Deduction for Lenders:** Allows lenders a deduction on the net interest earned from loans made to Enterprise Zone businesses, including business loans, mortgages and loans from noncommercial sources.

Other advantages include:

- No-cost job referral service used to find qualified employees whose wages can be claimed as tax credits.
- Development permit expediting and assistance.
- Tax savings for Enterprise Zone employees.
- Access to specialized technical and financial assistance programs.

SAN DIEGO REGIONAL ENTERPRISE ZONE



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